

BT (Lynx) Section of The Pensions Master Plan

Implementation Statement

For the year ended 31 March 2024

Introduction

This Implementation Statement (the "Statement") has been prepared by the Section Trustee (the "Trustee") of the BT (Lynx) Section of the Pensions Master Plan (the "Section") to demonstrate how the Trustee has acted on certain policies within its Statement of Investment Principles ("SIP").

Each year, the Trustee must produce an Implementation Statement that demonstrates how it has followed certain policies within the Section's SIP over the year. This Statement covers the year from 1 April 2023 to 31 March 2024.

This Statement has been prepared in accordance with the Occupational Pension Schemes (Investment and Disclosure) Regulations 2005 Amendments and is in respect of the Defined Benefit investments held by the Section.

Trustees of pension schemes are required to provide details of how, and the extent to which, their SIP policies on engagement with investee companies have been followed over the year, including (where applicable) a description of their voting behaviour, the most significant votes cast and any use of proxy voting on their behalf over the year.

SIP Policies

This Statement should be read in conjunction with the Section's SIP covering the year under review, which provides details of the Section's investment policies along with details of its governance structure and objectives.

Over the year the Section updated the SIP in June 2023 to reflect the agreed investment strategy changes in May 2023 that included fully disinvesting from the Section's previous holding in the LGIM Managed Property Fund. Since this date the Trustee has made a series of strategy changes to progressively de-risk the portfolio and the Trustee will update the SIP to reflect this once there is stability of the strategy to avoid frequent SIP changes. We note there has been no changes to the policies listed below over the year in respect of financially material considerations (including ESG) and stewardship.

The Section's SIP includes policies on:

- How "financially material considerations" including environmental, social and governance ("ESG") considerations are taken into account when making investment decisions for the Section.
- The extent to which non-financial matters are taken into account in the investment decision-making process.
- Stewardship and voting policy, including details on monitoring and engaging with the investee companies in which they invest (and other relevant stakeholders) on relevant matters (including performance, strategy, capital structure, the management of actual or potential conflicts of interest, risks, corporate governance, and governance, social and environmental issues concerning the Trustee's investments)
- A policy on monitoring the Section's asset managers, particularly concerning financial arrangements and ESG factors.
- A policy covering the duration of arrangements with the Section's investment manager.

This Statement reviews the voting and engagement activities covering the 12-month period to 31 March 2024 and the extent to which the Trustee believes the policies within the SIP have been followed.

The Section was invested in pooled funds managed by LGIM (the "Investment Manager") over the year under review to 31 March 2024 and also invested in pooled funds with Partners Group until the disinvestment on 22 February 2024.

It is therefore the Investment Managers that are responsible for the policies on taking ESG considerations into account in the selection, retention and realisation of investments within the pooled investment vehicles and for the exercise of rights (including voting rights) attaching to these investments.

The Trustee's policy in relation to any rights (including voting rights) attaching to its investments is to exercise those rights to protect the value of the Section's interests in the investments.

The Trustee expects the Investment Managers to engage with investee companies (and other relevant persons including, but not limited to, investment managers, and issuers/other holders of debt and equity and other stakeholders) on aspects such as performance, strategy, capital structure, management of actual or potential conflicts of interest, risks, corporate governance, social and environmental issues concerning the Trustee's investments. The Trustee believes that such engagement will protect and enhance the long-term value of its investments.

How the policies in the SIP have been followed over the Section year

In the opinion of the Trustee, the policies in the SIP have been followed throughout the year to 31 March 2024 for Section.

The Trustee's policies on investment objectives:

The Trustee's primary investment objectives for Section are:

Policy	Assessment
"Funding" objective – for the Section to be fully funded on a low-risk basis, taking account of the strength of the Company covenant.	The Trustee reviews the investment strategy regularly with its investment advisor. When deciding on an appropriate investment strategy, the Trustee will consider the Section's liabilities and covenant strength of the company to ensure the Section is on track to meet the funding objective.
"Stability" objective - to have regard for the Company's ability to meet its contribution payments and to have regard for the volatility of funding; and	There is no reason to suggest that the sponsoring employer's financial strength and commitment to the Section has changed, and therefore the Trustee retains the belief that the long-term strategy of the Section is appropriate.
"Hedging" objective - for the assets to hedge a portion of the interest rate and inflation risk associated with the Section's liabilities on a proxy buy-in basis.	The Section updated its hedging ratios in February 2024 to target c. 95% of changes to interest rates and inflation expectations on a proxy buy-in basis. This is part of a series of ongoing de-risking strategy changes which will be reflected in the SIP once complete.
"Long-term funding target" - to reach a funding position where the Section's assets relative to the liabilities could allow for the Section to progress towards a pension risk transfer, including a buy-in or buy-out, if the Trustee and company agree to this.	The Trustee increased its hedge ratios to the 95% proxy buy-in basis with the long-term aim to minimise interest rate and inflation risk and to commit to the long-term direction of travel towards an insurance solution.

Description of Equity Voting Behaviour

The Section invests in pooled funds, which means that the responsibility for exercising the voting rights of the shares held by the Section sit primarily with the Investment Managers, LGIM and Partners Group. The Section's voting behaviour over the Section year is summarised below.

The pooled fund investments held by the Section which carried voting rights during the year were:

- The LGIM Future World Global Equity Index Fund (GBP Hedged) from 1 April 2023 to 31 March 2024; and
- The Partners Group Generations Fund from 1 April 2023 to 22 February 2024;

LGIM manages over £1.2 trillion in assets, and uses its resulting influence as investors, focussing their votes and engagement with organisations on climate change, income equality, diversity, and ESG integration.

The table below shows LGIM's voting summary covering the Section's investment in the LGIM Future Global Equity Index Fund (GBP Hedged) over the year until 31 March 2024.

LGIM Future World Equity Index Fund – GBP Hedged	1 April 2023– 31 March 2024
Number of meetings LGIM was eligible to vote at over the year	5,134
Number of resolutions LGIM was eligible to vote on over the year	52,212
Of the eligible resolutions, percentage that LGIM voted on.	99.9%
Of the resolutions voted, percentage that LGIM voted with management.	80.3%
Of the resolutions voted, percentage that LGIM voted against management.	19.5%
Of the resolutions voted, percentage where LGIM abstained .	0.3%
Percentage of eligible meetings where LGIM voted at least once against management.	63.3%
Percentage of voted resolutions where LGIM voted contrary to the recommendation of their proxy adviser.	11.1%

The table below shows Partners Group's voting summary covering the Section's investment in the Partners Group Generations Fund, which the Section was invested in from 1 April 2023 to 22 February 2024, when the Section redeemed its holding. Partners Group provides its voting statistics for 12-month periods to standard half-years, rather than the actual periods invested. Therefore, we have included voting information covering the most relevant 12-month period from 1 January 2023 to 31 December 2023, noting that the Section held investment from the Partners Group Generation Fund from 1 April 2023 to the 22 February 2024 over the Section year.

Partners Group Generation Fund	1 January 2023 – 31 December 2023
Number of meetings Partners Group was eligible to vote at over the year to 31/12/2023	67
Number of resolutions Partners Group was eligible to vote on over the year to 31/12/2023	999
Of the eligible resolutions, percentage that Partners Group voted on.	100.0%
Of the resolutions voted, percentage that Partners Group voted with management.	93.0%
Of the resolutions voted, percentage that Partners Group voted against management.	6.0%
Of the resolutions voted, percentage where Partners Group abstained .	1.0%
Percentage of voted resolutions where Partners Group voted contrary to the recommendation of their proxy adviser.	4.0%

Regarding the Section's credit and LDI investments managed by LGIM, these funds did not hold any investments that carried voting rights.

Proxy Voting

The Trustee did not employ a proxy-voting service during the Section year to 31 March 2024, nor did the Trustee set stewardship priorities during the year.

LGIM votes by proxy as given the scale of its holdings, the manager cannot be present at all shareholder meetings to cast votes. LGIM votes by proxy through the Institutional Shareholder Services ('ISS') electronic voting platform. It should be noted that all voting decisions are made by LGIM using its individual market specific voting policies, with LGIM's own research only supplemented by ISS recommendations and research reports produced by the Institutional Voting Information Service ('IVIS').

Partners Group also votes by proxy through Glass Lewis, a proxy advising firm who undertake research on each ballot item and recommends votes in line with best practice, including local market standards. Glass Lewis have been instructed to vote in-line with Partners Group's bespoke Proxy Voting Directive, which contains specific ESG and Sustainability corporate governance considerations that arise frequently. In circumstances where Glass Lewis' recommendation is different to that from the Proxy Voting Directive and the company's management, Partners Group will vote manually on the proposal.

How Voting and Engagement Policies Have Been Followed

The Trustee intends to review a summary of the voting and engagement activity taken on its behalf on a regular basis. The information published by LGIM and Partners Group on their voting policies has provided the Trustee with comfort that the Section's voting and engagement policies have been followed during the year to 31 March 2024.

As set out in the SIP, the Trustee expects the Investment Managers to engage with investee companies on aspects such as performance, strategy, risks, corporate governance, management of actual or potential conflicts of interest, capital structure, and social and environmental issues concerning the Trustee's investments.

Details of specific voting and engagement topics are shown in the following table.

Voting and Engagement topic	Policy followed in the opinion of Trustee?	Comments
Performance of debt or equity issuer	✓	Partners Group and LGIM's voting and engagement policies do not cover the past financial performance of investee companies. However, the voting and engagement which has been undertaken aims to improve the long-term future performance of the investee companies.
Strategy	✓	The Trustee believes that the duty of the board of each company is to decide the appropriate company strategy, with the CEO in turn responsible for executing the strategy. For this structure to work effectively, the Trustee also believes that the appropriate governance structures need to be in place. These include the separation of duties between the board and the CEO, as well as policies covering independence, diversity and remuneration. Partners Group and LGIM have clear voting policies covering each of these topics and has acted on them throughout the Section year on behalf of the Trustee.
Risks	✓	Partners Group and LGIM have clear voting policies on ensuring that companies manage risk effectively and have robust internal controls. As an example of reducing risk, LGIM encourages all audit committee chairs globally to have a financial background and be entirely comprised of independent non-executive directors. LGIM also expect companies for whom climate change is a material financial risk to reflect these risks within the estimates used to prepare their financial accounts.

Social and Environmental impact	✓	<p>LGIM has acted against almost 300 companies in 2023 under their Climate Impact Pledge in order to hold directors to account for their management of climate risk. This included two companies being divested, and one company being reinstated. LGIM's Climate Impact Pledge now covers more than 5,000 companies across 20 climate-critical sectors.</p> <p>During 2023, to promote diversity at the board level, LGIM voted against the board chair of UK and US companies where there was insufficient gender representation on the executive committee, or the board did not include at least one person from an ethnic minority background. Over 2023, in line with this policy LGIM voted against NVIDIA Corporation, Tesla Inc, Thermo Fisher Scientific Inc and others on these grounds.</p>
Conflicts of Interest	✓	<p>Remuneration of personnel can lead to conflicts of interest between the principal (shareholder) and agent (management). Over the period under review, LGIM voted against incentive awards which did not have performance conditions or where clear guidelines were not in place, as these awards would not align remuneration with company performance. For example, LGIM voted against Banco Santander SA's remuneration policy because awards are permitted to vest for below median relative performance.</p>
Corporate Governance	✓	<p>LGIM's policy is to vote against all elections which combine the roles of CEO and Chair. For example, LGIM voted against electing directors of Microsoft Corporation, Johnson & Johnson, and Pfizer Inc. alongside several others, in line with this policy.</p> <p>To ensure that each board is operating at an appropriate level, a 'board maturity' assessment is used to assess effectiveness covering areas such as performance and company strategy. Additionally, Partners Group aims to appoint a board member or executive at the leadership level to become responsible for developing a meaningful ESG journey plan within 100 days of investment.</p>
Capital Structure	✓	<p>LGIM and Partners Group have policies on voting in respect of resolutions regarding changes to company capital structure such as share repurchase proposals and new share issuance.</p> <p>For example, LGIM has advocated for equal voting rights under a 'one share, one vote' standard and voted for a resolution to approve a recapitalisation plan for all Alphabet Inc. stock to have one vote per share.</p>

Significant Votes

LGIM has provided details of its voting actions including a summary of the activity covering the reporting year up to 31 March 2024. The Trustee has adopted the manager's definition of significant votes and has not set stewardship priorities. LGIM has provided examples of votes it deems to be significant, and the Trustee has shown the votes relating to the greatest exposure within the Section's investment.

Example 1: LGIM Future World Global Equity Fund – GBP Hedged	
Vote Details	Microsoft Corporation, 07/12/2023
Approximate size of fund's holding as at date of vote	5.67% of Future World Global Equity Fund – GBP Hedged.
Rationale for significance	LGIM considered this vote significant as it was in application of an escalation of their voting policy on the topic of the combination of the board chair and CEO.

Voting decision	LGIM voted against the election of a Director at Microsoft Corporation, Inc as LGIM expects the roles of Chair and CEO to be separate due to the risk of management and oversight concerns.
Voting against management	LGIM publicly communicates its vote instructions on its website with the rationale for all votes against management. Typically, it is LGIM's policy not to engage with investee companies in the three weeks prior to an AGM as engagement is not limited to shareholder meeting topics.
Vote outcome	Pass
Next Steps	LGIM will continue to engage with the investee company, publicly advocate its position on this issue and monitor company progress.

Example 2: LGIM Future World Global Equity Fund – GBP Hedged	
Vote Details	Apple Inc., 28/02/2024.
Approximate size of fund's holding as at date of vote	4.46% of Future World Global Equity Fund – GBP Hedged.
Rationale for Significance	LGIM considers this vote to be significant as it relates to diversity. LGIM believes diversity is a financially material issue for its clients with implications for the assets managed on its clients' behalf.
Voting decision	LGIM voted against Apple reporting on the risks of omitting viewpoint and ideological diversity from its Equal Employment Opportunity policy. LGIM is satisfied with the level of pre-existing disclosure around diversity and non-discriminatory practices provided to shareholders by the corporation. LGIM also does not consider this specific reporting topic to be a standard industry practice.
Voting against management	LGIM publicly communicates its vote instructions on its website with the rationale for all votes against management. Typically, it is LGIM's policy not to engage with investee companies in the three weeks prior to an AGM as engagement is not limited to shareholder meeting topics.
Vote outcome	Fail
Next Steps	LGIM will continue to engage with its investee companies, publicly advocate its position on this issue and monitor company and market-level progress.

Due to the private market's nature of the Partners Fund, voting is only relevant for a small proportion of the portfolio. As such, Partners Group provided no examples of significant votes over the year to 31 December 2023 but noted that due to their control of the Board it was able to implement a range of ESG policies and initiatives including Wedgewood Pharmacy who has completed its Scope 3 footprint assessment for 2022, ensuring that its environmental impacts measured and aligns with its Greenhouse Gas reduction objectives.

Furthermore, with Gren, they have a focus on reducing carbon footprints with a plan to decarbonise operations by developing a GHG reduction strategy. The company are also working with EY to establish an accounting system for Scope 1 & 2 with the aims to add Scope 3 emissions by 2025. The company aims to reduce GHG emissions by 73% by 2030.

Engagement with Investee Companies

Exercising equity voting rights (including those related to the Section's investment in the LGIM Future World Equity Index Fund – GBP Hedged, which had a value of c. £3.7m or 23.0% of Section assets as at 31 March 2024) is not the only method of influencing behaviours of investee companies and is not entirely applicable for the Section's fixed income investments held with LGIM in the Buy and Maintain Credit Fund (c. £5.7m or 35.6% of Section assets as at 31 March 2024). However, the Trustee expects the Investment Manager to engage on its behalf to influence the underlying investee companies in respect of the ESG and stewardship matters outlined above.

LGIM actively engages with investee companies via direct messages and meetings with management and engagements via email to influence positive ESG practice. It is also noted that there is substantial overlap between the companies in which LGIM holds debt and equity and so, while the corporate bonds mandate does not hold voting rights, LGIM's position as the equity holder elsewhere will likely result in them having voting rights to compound the impact and influence that LGIM have on each company's practices.

LGIM's voting and engagement activities are driven by ESG professionals and their assessment of the requirements in these areas seeks to achieve the best outcome for clients. LGIM's voting policies are reviewed annually and take into account client feedback.

Over the 12 months to 31 March 2024, LGIM undertook 2,144 engagements with 2,006 companies. Some engagements cover multiple topics and LGIM have provided the following summary:

- 1,820 on environmental topics;
- 274 on social topics;
- 528 on governance issues; and
- 119 on other topics including finance and strategy.

The top five engagement topics included climate change, remuneration, board composition, energy and climate impact pledges.

The table below summarises the engagements undertaken on a fund-by-fund basis. Data was available for the Future World Global Equity– GBP Hedged Fund and the Buy and Maintain Credit Fund over the year to 31 March 2024.

	Total Engagements	No. Unique Companies Engaged	Environmental Topics	Social Topics	Governance Topics	Other Topics
Buy and Maintain Credit Fund	177	83	80	60	90	34
Future World Global Equity Fund – GBP Hedged	795	530	463	195	275	67

The Trustee will monitor LGIM's reporting to see if more detail at a fund level can be provided in the future for monitoring purposes.

An example of an engagement carried out by Partners Group is with Gren. Partners Group worked with Gren to appoint ESG specialist individuals at the board, executive and leadership level within 100 days with the aim to reduce the company's carbon footprint.

The remainder of the Section's assets are invested in leveraged nominal and index-linked government bonds through the LGIM Matching Core Fund Range and the Sterling Liquidity Fund (c. £6.7m or 41.4% of Section Assets as at 31 March 2024) with the purpose of reducing risk by hedging the exposure to interest rate and inflation inherent in the Section's liabilities, and a cash fund for liquidity purposes. LGIM has governance practices in place to capture key regulatory developments which might influence the future management and performance of these hedging assets.

Extent to which Trustee Policies Have Been Followed

Having reviewed the actions taken by the Investment Managers over the year, the Trustee believes that its policies on stewardship and engagement have been implemented appropriately over the year and in line with its views as stated in the Section's SIP. The Trustee will continue to monitor the actions taken on its behalf each year and press for improved engagement information and ESG reporting metrics from the Investment Managers at a fund specific level.

If the Investment Managers deviate substantially from the Trustee's stated policies, the Trustee will initially engage and discuss this with Investment Manager, and if the Trustee still believes the difference between its policies and Investment Manager's actions are material, the Trustee will consider terminating and replacing the mandate if necessary.

July 2024

